

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TWO)

Docket No. RM2017-6

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-3 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(July 10, 2017)

The United States Postal Service hereby provides its responses to Questions 1-3 of Chairman's Information Request No. 1, issued June 27, 2017. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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July 10, 2017

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1. Please refer to Proposal Two at 4, where the Postal Service states:

As countries shift to the Target System, the only change is an accounting change from Transition settlement rates to Target Country settlement rates. There are no operational changes. The treatment of Inbound mail does not change when a country shifts from a Transition Country to a Target Country.

Prior to the ICRA filed in Library Reference USPS-FY16-NP2,¹ the costs and revenues of Target System and Transition System countries for Inbound Letter Post (at UPU rates) were reported in separate lines of the ICRA. Please explain why these costs and revenues were reported separately, and discuss how the Postal Service intends to mitigate the loss of the benefits of reporting them separately.

RESPONSE:

Historically, the Postal Service separately reported Target System and Transition System countries for Inbound Letter Post (at UPU rates) to reflect the two different terminal dues structures. The difference in terminal dues structures was more important when there were more countries in the Transition System, but as the number of countries in that system (and their associated volume) declined, separate reporting became less relevant and less statistically reliable. Moreover, as explained in the Proposal, the *actual* costs of handling the mail pieces from a particular country are not affected by the terminal dues structure under which those pieces are entered. In keeping with the UPU's goal of moving all countries to the Target System, the decline in the number of Transition System countries (and their associated volumes) accelerated in 2016. The Postal Service recognized the issue during 2016, but resource constraints

¹ Docket No. ACR2016, REVISED USPS-FY16-NP2, February 3, 2017.

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and the timing did not allow for the Postal Service to propose combining Target System and Transition System reporting for FY16. As a result of the large number of countries (and their associated volumes) that shifted from the Transition System to the Target System, there was some confusion in the FY16 ICRA reporting, leading to the need to file errata.

There is no loss of information due to the proposed reporting of a single line item, because the underlying data are still available in the ICRA model. UPU changes occur on a calendar year basis, which is why many of the ICRA calculations are on the basis of CY 1 (calendar year 1 corresponding to the first quarter of a Postal fiscal year) and CY 2 (calendar year 2 corresponding to the last three quarters of a Postal fiscal year). The only impact of shifts from Transition to Target System is an accounting change for settlements and settlement changes that can be seen in Inbound Calcs.xls and Outbound Calcs.xls.

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2. The Postal Service states that "Canada represents such a large portion of International that it justified its own separate reporting...." Proposal Two at 3. Given changes in volume flows, there are other countries with inbound volumes greater than Canada's inbound volumes. Please explain whether the Postal Service believes that these other countries should have separate costing and reporting, given their volumes.

RESPONSE:

Due to the extensive worksharing arrangements that Canada Post performs on letter post mail, the Canada-specific costs differ from those of other countries. Therefore, the cost systems (IOCS, CCS and TRACS) collect the Canada-specific data to support the separate reporting.

In addition, at this time, 100 percent of the Canada mail pieces are entered under bilateral arrangements. That facilitates separate reporting for Canada, which would be more difficult for the other countries with both UPU and bilateral flows. For example, China inbound Letter Post packets could be UPU untracked, UPU tracked or bilateral tracked.

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3. The Postal Service states the low number of In-Office Cost System (IOCS) tallies is insufficient for reliably distinguishing between Target System and Transition System costs. *Id.* at 2. Proposal Two would substitute IOCS tally analysis for a revised Domestic Processing Model which separates Inbound Letter Post into Canada and Rest of World. *Id.* at 12.
- a. Please confirm that IOCS tallies are not used to separate Inbound Letter Post costs between Canada and Rest of World.
 - b. Please confirm that the Management Data Operating System data are used to separate Inbound Letter Post costs between Canada and Rest of World.
 - i. If confirmed, please explain whether these data are sufficiently reliable to distinguish these costs. Please also explain whether these data could be used to reliably distinguish Target System and Transition System costs.
 - ii. If not confirmed, please identify the source of these data and explain why they are sufficiently reliable to distinguish Canada costs and Rest of World costs. Please also explain whether these data could be used to reliably distinguish Target System and Transition System costs.

RESPONSE:

To clarify page 12 of the Proposal, and contrary to what appears to be suggested in the question above, Proposal Two would replace the IOCS tally analysis with a revised DPM which separates Inbound Letter Post into Canada and the Rest of World.

- a. Not confirmed. IOCS tallies are used to separate Inbound Letter Post costs between Canada and Rest of World. IOCS has been collecting the Canada-specific data for years. The IOCS tallies are sufficiently reliable to distinguish Canada costs and Rest of World costs.

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- b. Not confirmed. The Management Operating Data System (MODS) data are not used to separate Inbound Letter Post costs between Canada and Rest of World. MODS data do not differentiate between countries.

The IOCS tallies that are the actual source of the data cannot be used to reliably distinguish Target System and Transition System costs. Please refer to the response to Chairman's Information Request (CHIR) No. 12, question 1 in the FY 2016 ACR proceeding, filed under seal as part of the Preface of USPS-FY16-NP37 on February 6, 2017.